



**Guidelines for the  
Neighborhood Stabilization Program  
(NSP)  
For the State of Minnesota**

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## **Overview**

The Neighborhood Stabilization Program (NSP) is an emergency assistance fund authorized under Title III of Division B, section 2301 of the Housing and Economic Recovery Act of 2008 (HERA) that is being provided for the redevelopment of abandoned and foreclosed homes and residential properties for the purpose of stabilizing neighborhoods. Unless HERA provides otherwise, the grant is considered a special Community Development Block Grant (CDBG) allocation.

Minnesota Housing is a grantee for the State of Minnesota NSP funds in the amount of \$38.8 million. Program funds are targeted to areas of greatest need determined through Minnesota Housing's funding formula. NSP funds will be subgranted to eligible local units of government with experience administering CDBG funds. State subrecipients are expected to be knowledgeable on the CDBG program as well as the laws and regulations governing the Neighborhood Stabilization Program. State subrecipients must commit and expend funding in accordance with NSP funding guidelines and the targeting and distribution process described by Minnesota Housing through its Action Plan and other supporting materials.

## **Program Goals**

- To maximize the revitalization and stabilization impact on neighborhoods;
- To complement and coordinate with other federal, state and local investment in the targeted neighborhoods;
- To preserve affordable housing opportunities in the targeted neighborhoods.

## **Neighborhood Stabilization**

Success in the use of NSP funds is viewed not merely in the numbers of houses bought, demolished or rehabilitated, but in the extent to which neighborhoods or blocks have been restored or stabilized, meeting the criteria of a functional market (competitive, sustainable, and integrated in healthy living including access to transit, affordable housing, employers, and services). Activities for which NSP funds will be used will contribute to the stabilization of targeted neighborhoods or blocks, develop new housing opportunities in targeted neighborhoods or blocks and preserve land for future redevelopment.

Funding will be awarded based on the extent to which an eligible applicant demonstrates that:

- The funding request is part of a comprehensive plan or strategy to stabilize a neighborhood(s) or blocks including efforts to improve living conditions, preserve

- affordable housing opportunities, stabilize home values, address public safety, school performance, job creation and other economic development need;
- It is feasible to use the requested funding within the required time frame;
- Opportunities are maximized to leverage other resources, both private and public; and
- The identified outcomes are achievable.

Priority will be given to applicants that target areas within one-quarter mile of existing or planned transit routes and that promote economic diversity within the targeted areas.

### **Eligible Fund Uses**

Minnesota Housing will subgrant NSP funds to eligible applicants. The state subrecipients may accept applications to undertake eligible activities and/or may directly undertake eligible activities. Funding is limited to efforts that meet NSP program goals, criteria, and requirements. Eligible NSP fund uses (activities/projects) are described below:

- A. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties
- B. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties
- C. Establish land banks for homes that have been foreclosed upon
- D. Demolish blighted structures
- E. Redevelop demolished or vacant properties

### **Ineligible Fund Uses**

- Generally, if an activity is ineligible under CDBG, it is ineligible under NSP
- Foreclosure prevention
- Demolition of non-blighted structures
- Purchase of properties not abandoned or foreclosed upon
- Redevelopment for commercial purposes

### **Areas of Greatest Need**

HERA requires that grantees that receive NSP funding give priority emphasis and consideration to those metropolitan areas, metropolitan cities, urban areas, rural areas, low and moderate – income, and other areas with the greatest need including those

- Areas with the greatest percentage of foreclosures,
- Areas with the highest percentage of homes financed by subprime mortgage related loans, and
- Areas identified as likely to face a significant rise in the rate of home foreclosures.

Minnesota Housing analyzed foreclosure, real-estate-owned (REO), subprime, and delinquency data on a zip code basis and sheriff's sale data on a county basis.

Minnesota Housing applicants are expected to target funds within the eligible high need areas to assure impact and must provide sufficient detail for Minnesota Housing to justify the area or community of greatest need for which they intend to use NSP funds.

## **Distribution Plan**

Maximum initial distributions were based on four categories of areas of greatest need:

- NSP entitlement areas (Anoka, and Hennepin counties and the cities of Minneapolis and St. Paul), which were assigned a maximum distribution of funds in addition to the allocation they will receive directly from HUD;
- High-need zip codes outside the NSP entitlement areas;
- Communities in one of Minnesota's 23 high-need counties, with funds available on a competitive basis separately in the Twin Cities Metro Area and Greater Minnesota;
- High-need areas for which maximum distributions were assigned for Community Revitalization projects selected as part of Minnesota Housings fall 2008 Single Family Request for Proposals.

Applicants must provide a comprehensive stabilization plan that will restore/sustain neighborhoods and generate a healthy living environment. Further guidance on how to apply for the funds can be found in the Neighborhood Stabilization Program Funding Application Instructions available at

[http://www.mnhousing.gov/resources/apply/MHFA\\_007433.aspx](http://www.mnhousing.gov/resources/apply/MHFA_007433.aspx).

## **Eligible Applicants**

Local units of government experienced in administering CDBG funds. Local units of government include cities, HRAs, EDAs, CDAs, PHAs and counties. Only local units of government operating in the zip codes or counties identified as areas of greatest need may apply for funds.

For cities within NSP entitlement counties (Anoka, Dakota, and Hennepin, with the exception of the city of Minneapolis), the entitlement county is the eligible applicant. For local units of government within the NSP entitlement cities, (Minneapolis and St. Paul), the entitlement city is the eligible applicant.

Local units of government that have contracted with other entities to administer CDBG funds and do not have direct experience administering CDBG funds must contract with an experienced CDBG administrator to administer the NSP funds.

## **Partnerships**

Applicants should identify collaborating partners to complement and supplement their expertise and approach in neighborhood stabilization and/or improve their capacity in meeting the goals of their stabilization plans.

Applicants should identify funding partners to improve their investment in the targeted areas for revitalization in order to maximize housing and neighborhood outcomes.

Applicants are expected to consider all programs available to them, including those available through utility companies for energy efficiency improvements.

## **Definitions and Descriptions**

### **Abandoned home/property:**

A home is abandoned when mortgage or tax foreclosure proceedings have been initiated for that property, no mortgage or tax payment have been made by the property owner for at least 90 days, *AND* the property has been vacant for at least 90 days.

### **Acquisition discount:**

The acquisition discount from current market appraised value for foreclosed properties will be at minimum 5% per property and an average discount of 15% over the entire portfolio of properties acquired. Subrecipients should seek maximum reasonable discount taking into account the condition of the property and likely carrying costs to the seller if the property continues in its portfolio. Minnesota Housing has posted the National Stabilization Trust's Net Realized Value approach on its website. The model posted at the following link [http://www.mnhousing.gov/resources/apply/MHFA\\_007433.aspx](http://www.mnhousing.gov/resources/apply/MHFA_007433.aspx) is acceptable for use by subrecipients, but not required.

### **Affordable rents:**

Minnesota Housing has adopted the definition of affordable rents that is contained in 24 CFR §92.252(a) minus utility allowances where tenants pay utilities. This definition is consistent with the continued affordability requirements of the same section that Minnesota will adopt for the NSP program. Under 24 CFR §92.252(a), a rent is affordable that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area, as determined by HUD, with adjustments for the number of bedrooms in the unit; OR is equal to the fair market rent (FMR) determined by HUD and used in the Section 8 Housing Choice Voucher Program.

### **Blight:**

Minnesota Housing defines a blighted structure as one which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, is detrimental to the safety, health, morals, or welfare of the community.

State subrecipients may use either the local jurisdiction's definition of "blighted structure" or Minnesota Housing's definition, and will designate which definition they will use in their application for funding.

### **Continued affordability:**

State subrecipients will be required to include in their loan documents, as a minimum, the affordability requirements of 24 CFR §92.252(a), (c), (e), and (f), and §92.254 (the HOME program periods of affordability). Affordability requirements for rental properties will be specified in the loan and/or mortgage documents and a deed restriction or covenant similar to the HOME program. Mortgages and deed restrictions or covenants will be recorded against the property and become part of the public record.

Affordability of owner-occupied housing will be enforced by recapture or resale. Each state subrecipient will design its own recapture provisions.

State subrecipients are responsible for ensuring that their activities benefit the intended populations and documenting compliance.

**Current market appraised value (CMAV):**

The current market appraised value means the value of a foreclosed home or residential property that is established through an appraisal made in conformance with the appraisal requirements of the Uniform Relocation Act at 49 CFR 24.103 and completed within 60 days prior to a final offer made for the property by a grantee, subrecipient, developer, or individual homebuyer.

**Foreclosed home:**

A property has been foreclosed upon at the point that under state or local law, the mortgage or tax foreclosure is complete. HUD generally will not consider a foreclosure to be complete until after the title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law.

**Income limits:**

NSP Income Limits at 50% of HUD Area Median Income and 120% of HUD Area Median Income are available at [http://www.mnhousing.gov/resources/apply/MHFA\\_007433.aspx](http://www.mnhousing.gov/resources/apply/MHFA_007433.aspx).

**Land bank:**

A land bank is a governmental or nongovernmental nonprofit entity established, at least in part, to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of the property. For the purposes of NSP, a land bank will operate in a specific, defined geographic area. If a land bank is a governmental entity, it may also maintain abandoned or foreclosed property that it does not own, provided it charges the owner of the property the full cost of the service or places a lien on the property for the full cost of the service.

**Program income:**

Revenue received by a State, local unit of government, or state subrecipient directly generated from the use of NSP funds is CDBG income (also known as proceeds). The revenue may be generated from the sale of property, rental redevelopment, rehab or other eligible uses. Program Income must be provided to and used by the State or unit of general local government for additional NSP activities.

**Subrecipient:**

A subrecipient is a public or nonprofit agency, authority or organization receiving NSP funds from the recipient to undertake activities eligible for such assistance under HERA. A state subrecipient is one that has a written agreement with Minnesota Housing for use of NSP funds. A local subrecipient is one that has a written agreement for use of NSP funds with a state subrecipient.

**To “use” NSP funds:**

HUD has defined “use” to mean “obligate for a specific project”. Funds are obligated for an activity when orders are placed, contracts are awarded, services are received, and similar transactions have occurred that require payment by the state, unit of general local government, or local subrecipient during the same or a future period. Funds are not considered obligated by an agreement that awards funds to a state subrecipient or local subrecipient.

**Vacant:**

A vacant property is one on which the land and/or buildings are vacant (unoccupied).

**Compliance/Requirements****Use of Funds in 18 Months:**

Timely use of NSP funds is a requirement under HERA. All Minnesota Housing subrecipients must use (obligate) the NSP funds within 18 months from the date HUD signs its grant agreement with Minnesota Housing, anticipated to be the end of February. State subrecipients will therefore have less than 18 months after they receive their award to use their funds. Each potential state subrecipient is encouraged to carefully consider its capacity to use the funds within the statutory deadline.

**Low Income Targeting – Income Restrictions:**

- Not less than 25.4% of each state subrecipient’s grant and 25% of the program income it receives must be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of area median income.
- These targeting requirements apply to each direct state subrecipient and not to each project or activity; applicant must demonstrate how they will comply. Compliance is based on dollars not number of units. The budget must reflect these targeting requirements.
- The income requirement is based on occupancy of permanent housing (i.e. homeless shelters or transitional housing does not meet the requirement).
- Activities funded with NSP funds must benefit households with incomes at or below 120% of area median income (low, moderate and middle income households).
- For activities that do not benefit individual households, the activity must benefit areas in which at least 51% of the residents have incomes at or below 120% of area median income. Applicants should consult HUD’s website at: [http://www.huduser.org/publications/commdevl/nsp\\_target.html](http://www.huduser.org/publications/commdevl/nsp_target.html) for information on block group data on incomes to determine the incomes of the residents of the area in which the activities are to be undertaken.

**National Objective by NSP Eligible Uses – Benefiting Low-, Moderate and Middle-Income Persons (LMMI):**

- Establish financing mechanisms for the purchase and redevelopment of foreclosed upon homes and residential properties that will be occupied by households with incomes at or below 120 per cent of area median income.
  - Generally, financing provided by state subrecipients to homeowners for acquisition and/or rehabilitation will be without interest, except for circumstances in which the charging of interest or fees are necessary to pay documented costs associated with the financing mechanism. To the extent NSP funds provide a first lien or equivalent primary financing, such financing mechanisms may be priced at an interest rate that is no greater than the interest rate charged on Minnesota Housing mortgage revenue bond programs, currently 5.5%.
  - Financing provided to other entities for acquisition and redevelopment may carry interest rates of 0% to market rates for equivalent types of financing, with terms no longer than 30 years.
- Acquisition and Rehabilitation for Homeownership.
  - To meet the HERA LMMI national objective this acquisition and rehabilitation activity will provide permanent residential structures that will be occupied by households with incomes at or below 120% of area median income.
- Acquisition and Rehabilitation for Rental.
  - To meet the HERA LMMI national objective this acquisition and rehabilitation activity will provide permanent residential structures that will be occupied by households with incomes at or below 120% of area median income.
- Establish Land Banks for homes that have been foreclosed upon.
  - Land bank activity meets the HERA LMMI national objective by serving an area in which at least 51% of the residents have incomes at or below 120% of area median income. State subrecipients must define the area in which they will conduct this activity and document that resident incomes meet the NSP requirement.
- Demolish Blighted Structures.
  - The demolition activity meets the HERA LMMI by serving areas in which at least 51% of the residents have incomes at or below 120% AMI. State subrecipients must define the area in which they will conduct this activity and document that resident incomes meet the NSP requirement.
- Redevelop Demolished or Vacant Properties.
  - This redevelopment activity meets the HERA LMMI national objective when it provides permanent residential structures that will be occupied by households with incomes at or below 120% of AMI or provides a public facility that will benefit an area in which at least 51% of the residents have incomes at or below 120% AMI. If providing a public facility, state subrecipients must define the area in which they will conduct this activity and document that resident incomes meet the NSP requirement.

- Program Administration.
  - General administration of the NSP program. General administration costs incurred since September 29, 2008 are eligible pre-award costs. Up to 8.826% of the grant award and 10% of program income may be used for program administration.

### **Acquisition Discount:**

Properties purchased must be residential and identified as foreclosed or abandoned and/or vacant. Any property purchased in whole or part with NSP funds must be purchased at a discount from current market appraised value. A minimum of 5% discount for each property and an average discount of 15% over the entire portfolio of properties purchased is required.

The value of a foreclosed upon home or residential property is to be established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within 60 days prior to a final offer made for the property by the state subrecipient, developer or individual home buyer.

### **Financing Mechanisms:**

- Financing mechanisms are to be provided without interest, except for circumstances in which the charging of interest or fees is necessary to pay documented costs associated with the mechanism. To the extent that first lien or equivalent primary financing is provided, such financing mechanisms may be priced at an interest rate that is equivalent to the interest rate charged on Minnesota Housing mortgage revenue bond programs.
- Applicants must provide their rationale and extent to which they would provide assistance to individuals who were otherwise eligible for financing from the private sector. Possibilities include contracts for deed or participation in contracts for deed; first or second mortgages, either amortizing or deferred and participation in such mortgages; grants; low-or no-interest construction financing; down payment and closing cost assistance.
- Applicants intending to use NSP funds for homeownership opportunities for low-income households (below 50% of area median income) must describe steps that will be taken to promote successful homeownership, e.g. pre and post purchase counseling and the costs of such services, and the providers and funding for such services.
- State subrecipients will use the HOME recapture requirements as the minimum means to meet the continued affordability requirements of the NSP. The period of continued affordability will be at least as long as the period of affordability described in 24 CFR 92.254(a) (4). Recapture requirements and affordability periods will be defined by the subrecipients.

**Administrative Costs:**

No more than 8.826% of funds granted are eligible for program administration costs. Up to 10% of program income received may be used for program administration costs.

**Lead Requirements:**

Lead regulatory requirements apply in conformance with CDBG programs.

Requirements are in the Lead Disclosure Rule (24 CFR part 35, subpart A), and the Lead Safe Housing rule's provisions for rehabilitation (subpart J), and for acquisition, leasing, support services, or operation (subpart K), and accompanying procedural requirements in subparts B and R.

**Affordability Requirements:**

Subrecipients will be required to include in their loan documents, as a minimum, the affordability requirements of 24 CFR §92.252(a), (c), (e) and (f) and §92.254 (the HOME program periods of affordability). Affordability requirements for rental properties will be specified in the loan and/or mortgage documents, with a deed restriction or covenant similar to the HOME program. Mortgages and deed restrictions or covenants will be recorded against the property and become part of the public record.

All applicants' affordability requirements must be enforceable through recorded deed restrictions, covenants running with the land, or other mechanisms to ensure the full period of affordability is fulfilled.

See the definition of affordable rents above. When using NSP funds in conjunction with other affordable housing programs, the most restrictive rents shall apply.

When a project is rental property, NSP funds may also be used to capitalize operating reserves to reduce tenants' rents to more affordable levels. However, state subrecipients must demonstrate that the reserves are required by a lender, that such a requirement is consistent with industry practices and that the dollar amount of the required reserves is consistent with local industry standards.

**Demolition:**

Demolition plans should include a strategy for assembling land for redevelopment and not simply promote demolition on a scattered site. Applicants are encouraged to plan interim community uses for vacant land such as community gardens, playgrounds and parks, and describe how and who will maintain the vacated property until it is redeveloped.

**Rehabilitation:**

**Assessment:** In addition to property assessment standards already required by local, state, and federal regulations, properties shall also be assessed for the following (results of all assessment activities shall be disclosed to the purchaser prior to sale):

- Any visible mold or water infiltration issues.
- Compliance with smoke detectors, carbon monoxide detection, and GFCI receptacle protection as noted below in Required Rehabilitation Activities.

- Remaining life expectancy of major building components such as roof, siding, windows, mechanical systems and electrical systems, as well as any immediate cosmetic improvements necessary in order to sell or rent the residential property.

**Building Codes and Local Housing Standards:** NSP-assisted housing that is rehabilitated must be rehabilitated in accordance with the State Building, Electrical, and Plumbing Codes. Upon completion, the housing must be in compliance with local housing standards. If local housing standards do not exist, the housing must meet the minimum housing quality standards (HQS) of 24 CFR 982.401. Where local housing standards exist, state subrecipients must identify the standards that will apply to their projects and provide a copy to Minnesota Housing. As projects are rehabilitated, the state subrecipients must document how each project meets the local standard, or HQS if there is no local standard, for Minnesota Housing's monitoring review.

In addition to remediation of any deficiencies resulting from property assessment required by local, state, and federal regulations, rehabilitation activities shall include the following:

- Mold and/or water infiltration mitigation, if mold or water infiltration is observed during the Assessment. Any moldy materials that cannot be properly cleaned must be removed.
- Installation of U.L. approved smoke detection in all locations as required for new construction. At least one smoke detector must be hardwired (preferably located near sleeping rooms).
- Installation of GFCI receptacle protection in locations as required for new construction.
- Installation of carbon monoxide detection equipment in accordance with the 2006 state legislation.
- Application of relevant Green Communities Criteria with the Minnesota Overlay to any building component that is modified or altered during a financed activity; including selecting Energy Star qualified products.

### **Affirmatively Furthering Fair Housing:**

The jurisdiction will affirmatively further fair housing, which means that it will conduct an analysis to identify impediments to fair housing choice (AI) within the jurisdiction, take appropriate actions to overcome the effects of any impediments identified through that analysis, and maintain records reflecting the analysis and actions in this regard. State subrecipients that are CDBG entitlement grantees are required to have completed an AI. State subrecipients that are not CDBG entitlement grantees may, depending on their location either inside or outside the 11-county metropolitan area, accept the state or metropolitan area AI.

### **Environmental Requirements:**

State subrecipients will certify compliance with Environmental Requirements. All activities and projects must comply with the 24 CFR Part 58. The level of environmental review required depends upon the program design and project description. The responsible entity should consider the use of the categorical exclusion at §58.35(a)(4).

### **Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA):**

All property acquisition is subject to the requirements of the Uniform Relocation Act. This applies to both voluntary and involuntary transactions. State subrecipients will certify compliance with Uniform Relocation Act guidelines, as amended (42 U.S.C. 4601), and implementing regulations at 49 CFR part 24, except as those provisions are modified by the Notice for the NSP published by HUD, whether the intended use of the property is to house a homeowner or a renter.

### **Davis Bacon Laws:**

State subrecipients will certify compliance with Davis-Bacon laws and other labor standards, such as appropriate worker wages, wage decisions and rates posted at work site, verification of actual wages received, etc.

### **Limited English Proficiency Standards:**

State subrecipients must comply with the “Final Guidance to Federal Financial Assistance Recipients Regarding Title VI Prohibition Against National Origin Discrimination Affecting Limited English Proficient Persons” (published in the January 22, 2007 Federal Register, to ensure that program information is available in the appropriate languages for the geographic area served by the jurisdiction. State subrecipients will provide their plan for being in compliance.

### **Section 3 of The Housing and Urban Development Act of 1968:**

State subrecipients will comply with Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135. State subrecipients will be required to report on the number and amount of contracts let to women and minority businesses, and their Section 3 results regarding job training, employment, and contract opportunities for low- and very-low income residents in connection with projects.

### **Resale or Recapture:**

The sale of an abandoned or foreclosed upon home or residential property to an individual as a primary residence must be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe and habitable condition. The requirement that the property continue to be occupied by NSP-eligible owners will expire with recapture of the NSP investment or expiration of the period of continued affordability, see HOME requirements of 24 CFR 92.254 (a) (5).

### **Homebuyer Counseling and Education:**

All homebuyers assisted with NSP funds are required to receive and complete at least 8 hours of homebuying counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. Minnesota Housing has requested HUD approval for all the Homestretch counseling agencies in the Home Ownership Center’s network. Minnesota Housing will update its website when it receives a response from HUD on this matter. It is the intent of the NSP activities to ensure that homebuyers are not allowed to finance the purchase of NSP-assisted housing through the use of subprime mortgage

loans. State subrecipients must ensure that the homebuyer obtains a mortgage loan from a lender who agrees to comply with the bank regulator's guidance for non-traditional mortgages, see Statement on Subprime Mortgage Lending available at <http://www.fdic.gov/regulations/laws/rules/5000-5160.html>

**Time Line for Award and Use of NSP funds:**

Minnesota Housing will receive proposals through January 28, 2009 and announce awards at the end of February 2009. As discussed elsewhere, all funds must be used within 18 months from the date HUD signs its grant agreement with Minnesota Housing. State subrecipients will therefore have less than 18 months to use their funds.

In addition, all NSP activities must be completed and all NSP funds must be fully expended by the applicant within four years of the date HUD executes its NSP grant agreement with Minnesota Housing, anticipated to occur in early 2009. Therefore all state subrecipients and local subrecipients must complete all NSP activities and expend all NSP funds awarded by 2013.